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C O N F I D E N T I A L SECTION 01 OF 04 TEGUCIGALPA 001131

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STATE FOR EB/IFD, EB/ESC, WHA/EPSC, INR/IAA, AND WHA/CEN  
TREASURY FOR JHOEK  
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NSC FOR DAN FISK

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TAGS: [ECON](#) [EFIN](#) [PGOV](#) [SOCI](#) [HO](#)

SUBJECT: HONDURAN MINISTER OF FINANCE RESIGNS, SAYS IT IS  
NOT IN PROTEST; NEXT STOP: IDB

REF: A. (A) TEGUCIGALPA 1101 AND PREVIOUS

[1](#)B. (B) TEGUCIGALPA 1008

Classified By: DCM James Williard for reasons 1.5 (b) and (d).

[1](#)1. (C) Summary: GOH Minister of Finance Hugo Noe Pino resigned on June 16, effective July 1, when he will be replaced by Vice Minister Rebecca Santos. Noe Pino assured EconChief that his resignation was not in protest, but rather was the result of the President's desire to send him as Honduras' representative to the IDB in search of additional debt relief. His replacement Rebecca Santos is not a politician, but is technically savvy, strong willed, and a friend of President Zelaya, so it is possible she will be able to hold the line on spending, despite her lack of a political base. Noe Pino predicts positive movement on electricity and telecommunications concerns soon, but the best he can say about the teachers' wages crisis is that any solution will be a negotiated one and will likely be very expensive. Noe Pino claimed no knowledge of the swirling PetroCaribe or PDVSA deal, but did offer to ensure that U.S. oil companies currently owed money by the GOH are paid promptly. Post is cautiously optimistic about the new Minister-designate, but on the topic of IDB debt relief we are keeping our powder dry. End Summary.

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Hugo Noe Pino Out; Rebecca Santos In  
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[1](#)2. (U) In a surprise press conference late in the evening of June 15, GOH Presidential Advisor Raul Valladares announced the resignation of Minister of Finance Hugo Noe Pino, effective July 1. According to Valladares and Minister of the Presidency Yani Rosenthal, Noe Pino neither resigned in protest nor was fired. Instead, he has been asked to assume the Honduran representation to the InterAmerican Development Bank (IDB), in Washington D.C., where he will press the GOH case for over one billion dollars in additional debt relief. Current Vice Minister of Finance and former World Bank analyst Rebecca Santos has been named to succeed him.

[1](#)3. (C) On June 17 EconChief met with Noe Pino to discuss his resignation and other pressing fiscal issues. Pino, amiable and soft-spoken, seemed relaxed and open, and told EconChief that press reports intimating that the resignation stemmed from some kind of breach within the Administration were

simply incorrect. (NOTE: The reports stem from a high profile row between Noe Pino and President Jose Manuel "Mel" Zelaya at a meeting with the teachers unions on June 13. Zelaya had demanded to know how it was possible funds were not available to pay for new wage increases, and Noe Pino responded by saying &I cannot fool the teachers, there are no funds available." He then abruptly left the meeting. END NOTE.) Prior to his resignation, Noe Pino had been pressing the President for several days, he said, to name a person to fill the Honduran seat at the IDB. President Zelaya, convinced that approximately one billion dollars in hoped-for debt forgiveness will turn on a political and not economic decision, insisted that the nominee also have political gravitas. After rejecting two other nominees, Zelaya proposed that Noe Pino himself take the job. Noe Pino told EconChief that his instructions are to mount a "diplomatic offensive," starting with a visit to Presidents Fox of Mexico and Lula da Silva of Brazil, to persuade them to support the initiative.

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Rebecca Santos: Speaking Truth to Power  
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14. (C) Noe Pino will be replaced by current Vice Minister of Finance Rebecca Santos. Asked whether Santos -- a former World Bank technocrat, not a politician -- had the political stature to hold the line against the GOH's rising tide of populist spending programs, Noe Pino thought she could. Santos, he said, has a strong personality and believes in fiscal discipline as fiercely as he does. (Comment: Post has seen Santos openly express her frustrations at poorly aligned GOH spending priorities during meetings with the donor coordination group. According to one observer, she practically asked the group to take a firmer stance with the

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GOH in demanding sustainable fiscal spending. End Comment.) Perhaps more importantly, Santos worked directly for Zelaya when he was Minister of Social Programs (FHIS) in the early 1990s. She is a personal friend of his, and, Noe Pino said, "is treated like one of the family." Where Noe Pino (a former Ambassador) tries to smooth the rough edges of his criticisms, Santos, he said, "talks to the President like he's a cousin. She just says, "Hey, What are you doing? You're going the wrong way!" Noe Pino believes that this mixture of grit and the confidence of the President will serve her well in the battles to come. Santos was personally selected by the President to be the new Minister, and had accepted the position before Noe Pino's resignation was announced. Had she refused, he said, he would not have accepted the move to IDB.

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Runaway Fiscal Policy? Noe Pino Says No  
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15. (C) EconChief then inquired whether Noe Pino was frustrated with current fiscal policies, which have failed to deal with key issues such as electricity rates, telecommunications rates, and public sector wages (ref B). How, EconChief asked, can the GOH aspire to IDB debt forgiveness, when it appears prepared to break faith with the IMF and abandon certain key economic reforms and targets that were preconditions for last year's Heavily Indebted Poor Country (HIPC) debt relief package? Noe Pino asserted that the electricity and telecommunications problems are not so bleak as they seem. The GOH is working with the World Bank to develop sector restructuring plans that will include rate increases where appropriate. The questions then, he said, "is whether the Fund will accept the plan." Asked whether the President would back the plan, Noe Pino claimed the President had already approved it. Sending a plan to the IMF that did not have the President's full support would be pointless, he said. (Comment: Precisely. End Comment.)

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But the Teachers Remain a Major Problem  
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16. (C) All of the populist social spending in the news lately, Noe Pino said, doesn't really have much of an impact on the fiscal deficit. The problem, he said, is the optics: it looks like every group that protests gets a handout. "The real test by fire," he said, "will be (how the Zelaya Administration handles) the teachers." Legislation now pending before Congress would abrogate the 2003 wage reform law by exempting teachers, thus opening the door to teacher demands for full compliance with teachers wage and benefits packages passed in 1997. Folding these wage and benefits increases into the regular wage scale was a conditionality for the World Bank, and successful implementation by 2007 of that reform is a Performance Criterion for the IMF. Abrogation of that law would therefore put the GOH out of compliance with both IFIs. Post understands that such a reversal would then force the World Bank to halt all further disbursements on its Poverty Reduction Support Credits in Honduras. Moreover, the cost of fulfilling the teacher's demands could reach up to seven billion lempiras (about USD 370 million, or about 5 percent of GDP), exceeding the GOH/IMF agreed fiscal deficit ceiling of 1.7 percent by a factor of three or more.

17. (C) Asked what the GOH could do about this situation, Noe Pino first pointed out that he has repeatedly told Zelaya that the state simply cannot afford to pay the teachers what they want, regardless of how much the President wishes to do so. In the end there must be some kind of negotiated settlement. He speculated that a one-time pay raise now, in exchange for accepting a policy of all future raises being tied to inflation, could be the solution. But such a one-off payment could represent a significant additional fiscal expenditure. (Comment: Though he did not say it explicitly, Noe Pino seemed to be signaling that any politically viable solution to the teachers wage issue will likely be costly and could break through IMF-agreed fiscal deficit ceilings. End Comment.)

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So, How 'Bout Those Venezuelans?  
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18. (C) EconChief then inquired as to the "secret" June 7 visit to Honduras of Asdrubal Chavez (a close relative of Venezuelan President Hugo Chavez) and a delegation of other senior-level PDVSA officials. (Post had been alerted to the visit by sharp-eyed media at the airport, and subsequently confirmed the visit with both GOH and private-sector sources.) Noe Pino professed ignorance of the fact of the visit or its goals. (Comment: Noe Pino has not to date been involved in any discussion with PDVSA that Post is aware of, and likely was indeed ignorant of the lightning visit. End Comment.) EconChief noted that such secret visits raised the question of whether a non-transparent, non-competitive deal is being put together with the GOV (ref A). Even if the proposed competitive international tender for fuel imports goes forward, EconChief noted, a secret GOH meeting with one of the bidders could be interpreted as tainting the process. No matter how one looks at it, the GOH should not be conducting secret meetings with PDVSA or GOV delegations.

19. (C) Also on the topic of oil, EconChief lamented the June 13 ambush of U.S. oil companies, when they were invited to a meeting at the Presidency - allegedly to discuss the terms of the as-yet unreleased bid solicitation -- but instead were handed a significant change in the reference price they are allowed to use in selling their gasoline and other products. They were not consulted about the change, nor were they given an opportunity to object at the meeting. The meeting also broached the bid solicitation process (but not the TOR, which

is not finished yet). The companies were quite clear that they do not have sufficient information to make a reasonable business decision, and that at this point they are not planning to participate in the bid process. GOH Presidential Advisor Enrique Flores Lanza held a press conference immediately following the meeting, at which he announced that the companies had agreed to participate in the bid process. (Note: This echoes President Zelaya's press statements of June 4 in Washington, when he met with the companies, was similarly told they are not prepared to participate, and then nevertheless held a press conference at which he announced they had agreed to participate. End note.)

¶10. (C) The final issue raised at the June 13 meeting, EconChief said, was reimbursement for the oil companies of some USD 12.5 million they are owed by the GOH as a result of being forced to absorb the cost of price freezes at the gas pumps since April 9. At the meeting, GOH officials were unprepared to seriously address the issue, and had not even invited Minister of Finance Noe Pino to be present. The mounting debt, EconChief told Noe Pino, is not only worrisome, but is beginning to hamper company operations. Noe Pino said he is prepared to send reimbursement checks to the companies soonest, and requested that they meet with him during the week of June 19 to compare figures and settle the bill.

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Comment  
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¶11. (C) Comment: Noe Pino was formerly Zelaya's campaign director, and seems both loyal to Zelaya and supportive of his overall goals. That said, he has a deep appreciation for the need for fiscal discipline and remaining in the good graces of the IMF and World Bank. He has repeatedly advised his President to keep spending programs in line. He feels somewhat unfairly attacked, since he says that while the quantity of handouts has grown, the budget impact of these populist gestures has been slight. However, that is not the case with the teachers wage issue, and his vague solution to that concern (particularly in light of the President's repeated promises to honor their benefits package in full) strikes us as more hopeful than realistic. Post is cautiously optimistic that Santos will continue to try to hold the line, but with what degree of success remains to be seen. Finally, as for Noe Pino's next assignment of securing IDB debt relief for Honduras: Post is increasingly dubious that given its current policies, the GOH deserves additional debt relief. Post understands this is likely to be a slow-moving issue within the IDB itself, and will in the

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meantime keep a close eye on GOH fiscal discipline and political will. End Comment.

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